



PACIFIC

SMILES GROUP

Goldman Sachs Small and Mid-Cap Conference

**Presented by:
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21 May 2015

Important disclaimer

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Pro forma financial information

Pacific Smiles uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as non-IFRS financial information.

Pacific Smiles considers that this non-IFRS financial information is important to assist in evaluating Pacific Smiles' performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. In particular, this information is important for comparative purposes with pro forma information contained in Pacific Smiles' IPO Prospectus lodged with ASIC on 3 November 2014.

For a reconciliation of the non-IFRS financial information contained in this presentation to IFRS-compliant comparative information, refer to the Appendices of this presentation.

All dollar values are in Australian dollars (A\$) unless otherwise stated.

Agenda

1 Introduction and investment highlights

2 Dental industry overview

3 Business overview

4 Growth strategy

5 Financial information

6 Outlook

Section one
Introduction &
investment highlights

Overview

- ❑ Founded in 2003, Pacific Smiles is a **leading Australian branded dental group**, operating **47 dental centres** containing more than 220 active dental chairs
- ❑ Strives for industry leading consistency across operations, facility design and dental centre positioning
- ❑ Pacific Smiles provides dentists with fully serviced and equipped facilities, including support staff, materials, marketing and administrative services – enabling dentists to maximise time treating patients
- ❑ Dentists offer a range of general, family and cosmetic dental treatments and a range of specialist services including orthodontics and dental implants
- ❑ **260 dentists** and over **700 staff** likely to provide services at approximately **500,000 patient appointments** this year
- ❑ The Group has achieved rapid growth predominantly via an organic rollout strategy



Investment highlights

Large market opportunity

- \$8.7bn Australian dental market which is highly fragmented
- Estimated market share of < 2% currently (largest competitor is approximately 5%)

Focus on organic growth

- Focus on organic roll out of centres, rather than acquisitions
- Facilitates consistency of branding, operations, dentist engagement and dental centre design
- Target growth of 6-10 new centre openings each year with > 200 identified potential trade areas

Successful dentist & patient engagement

- Highly consistent dentist engagement model, not based on long term contracts or “lock ins”
- Stable base of long term dentists - benefits from fully serviced dental facilities and patient flows
- Strong post visit survey results (Net Promoter Score of >60)

Strong financial performance

- Six year EBITDA compound annual growth of 24% per annum
- Return on Invested Capital (EBIT) ~ 50%
- Self funded growth, with minimal debt and increasing dividends paid each year since 2003

Accomplished leadership team

- Long term core leadership team
- Founders and CEO have been with the business for more than a decade
- Key management and founders remain significant shareholders

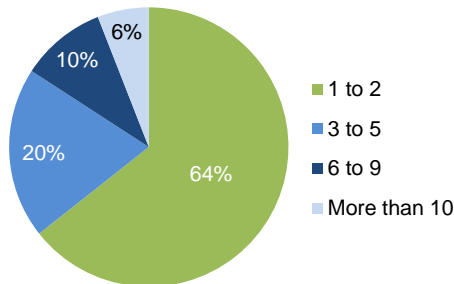
Section two
Dental industry overview

Dental industry overview

1 Large, fragmented market

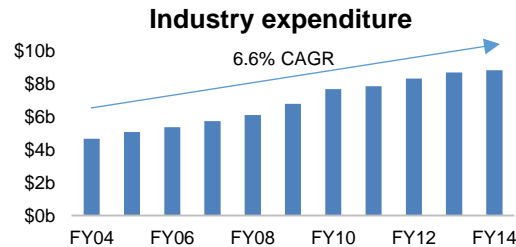
- \$8.7 billion pa industry representing 6% of Australia's total healthcare expenditure
- 3/4 of the adult population in Australia visits a dentist at least once every 2 years
- Approximately 13,000 dental practices
- Predominantly small scale, with 64% of practices having two or less practitioners
- 88% in private practice and 12% in public practice

No. of practitioners per practice



2 Long term growth

- Industry has grown at an average of more than 6.6% pa for over a decade, through a variety of economic conditions

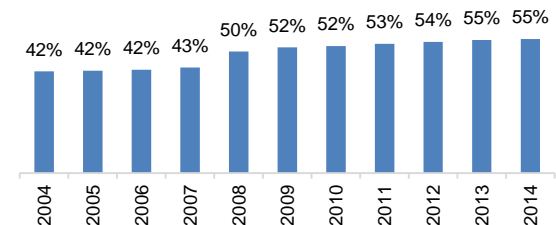


- Growth supported by an increase in the rate of retention of natural teeth, and the number and range of services available to patients
- The proportion of people aged 15 and over who made a dental visit in the previous 12 months increased from 56% in 1994 to 62% in 2010
- Some dental treatments, particularly cosmetic ones, are more discretionary and economically sensitive

3 Private health insurer funding

- In the 12 months to 31 March 2014, private health insurers paid benefits equal to 53% of the dental fees charged to insured patients
- Private health insurer benefits paid has grown steadily over time
- Many private insurers offer Preferred Provider Agreements to dentists to allow patients to access preferential treatment benefits
- Private health insurance "ancillary" cover has grown from 42% in 2004 to 55% currently

Private Health Insurance Ancillary Coverage



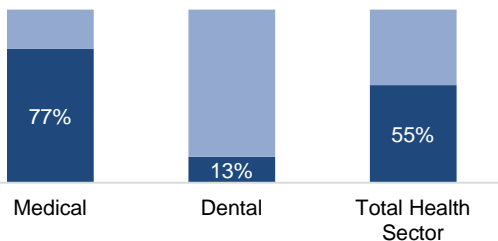
Notes: 1. Data to FY13 sourced from AIHW and FY14 IBISWorld estimates

Dental industry overview

4 Low reliance on government funding

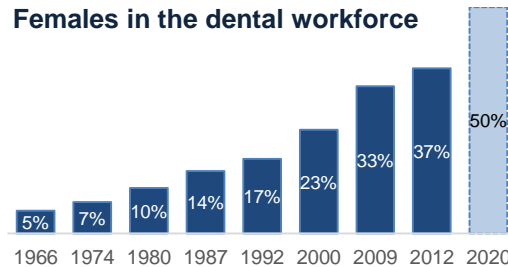
- In 2012-13, the federal government funded 13% of total expenditure in private clinic dental services
- By comparison, general medical is funded 77% by federal government
- The Child Dental Benefits Schedule commenced in January 2014. CDBS is expected to contribute approximately \$300m per annum to the dental sector based on the run-rate to March 2015

Federal Govt Funding 2012-13



5 Changing workforce composition

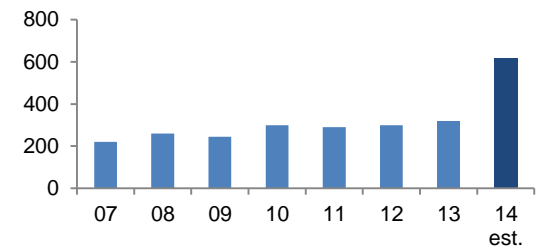
Females in the dental workforce



- Women now comprise more than a third of the dental workforce, up from 23% in 2000. Women are expected to comprise 50% of the dental workforce by 2020
- Dentists are increasingly favouring more flexible working arrangements, including part time (31% of dentists in Australia work part time)
- Many dentists practicing from Pacific Smiles' centres elect to work less than five days a week

6 Increase in dental graduates

Number of graduates per annum



- 2006 to 2011 approximately 300 dentists graduated per annum
- Four new dental schools in regional universities established since 2005
- The number of dental graduates anticipated in 2014 onwards is > 600
- Overseas dentist numbers increasing
- These trends should increase dentist availability in regional areas and provide a more flexible workforce for the industry

Section three
Business overview

Founding principle



Traditional model

Dentist performs clinical AND operational AND ownership roles

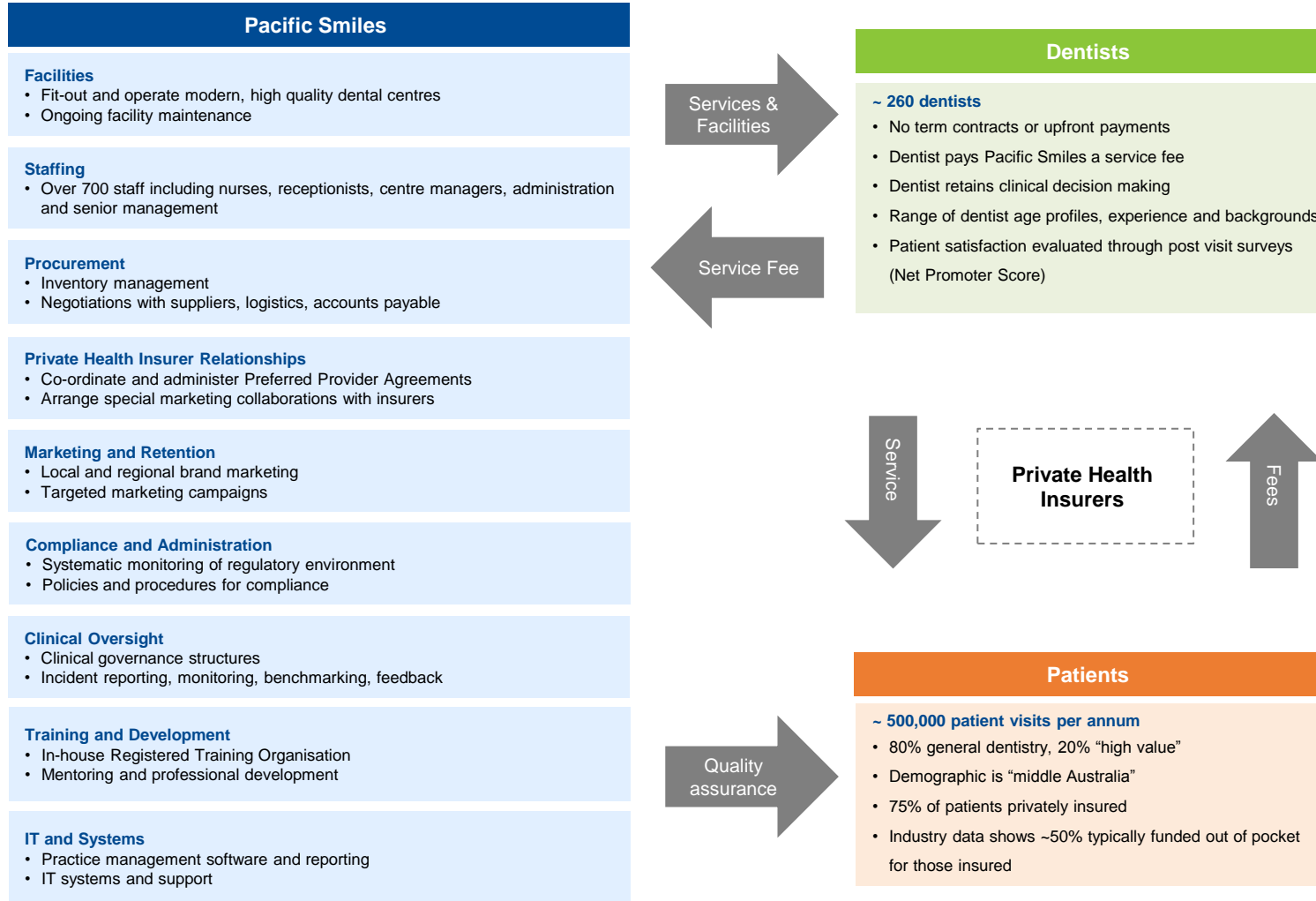


Pacific Smiles model

Dentist performs clinical role



Key elements of the business model



Dental centre network

A multi-state network with success in regional and metropolitan markets...

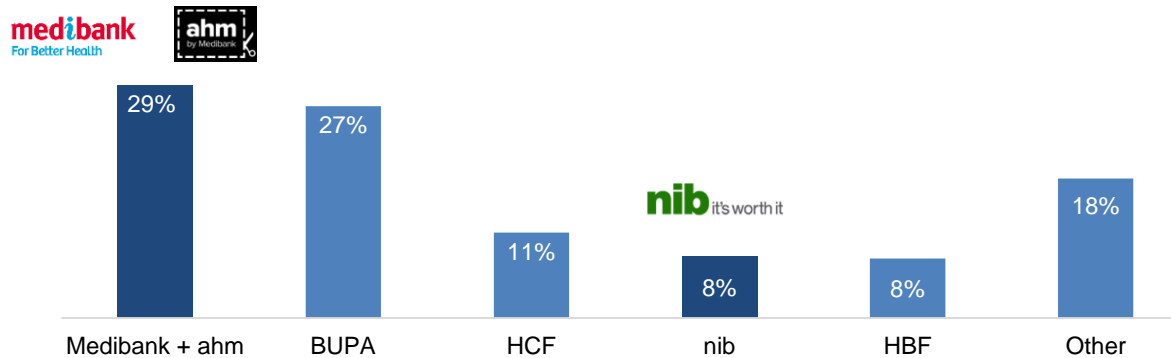


- 47 dental centres in total of which 7 are branded “nib Dental Care Centre”
- Expansion into regional and metropolitan locations from the Hunter Valley region
- Focus on geographic “clusters” to leverage brand and operational synergies
- Pacific Smiles centres open for more than 3 years have an average market share of 14% in their trade area, with a number of centres achieving 30%+ market share ¹

Note 1 - Derived from Geotech Information Services, Trade Area Network Planning Report (2013)

Private health insurer relationships

Enhanced insurer relationships by national market share



- ❑ Pacific Smiles Group has developed important strategic relationships with major Private Health Insurers (“PHI”)
- ❑ Most dentists at Pacific Smiles currently have Preferred Provider Agreements in place with Private Health Insurers representing over 75% of the industry by market share
- ❑ Pacific Smiles seeks to build deeper relationships with a limited number of PHIs via long term agreements between Pacific Smiles dentists and the PHIs
- ❑ Long term agreements with nib, Medibank and ahm, together approximately 37% market share nationally
- ❑ Pacific Smiles provides a differentiated value proposition to the health fund members, which is marketed to PHI customers in Pacific Smiles centre catchments
- ❑ PHI customers can access benefits across the Pacific Smiles network

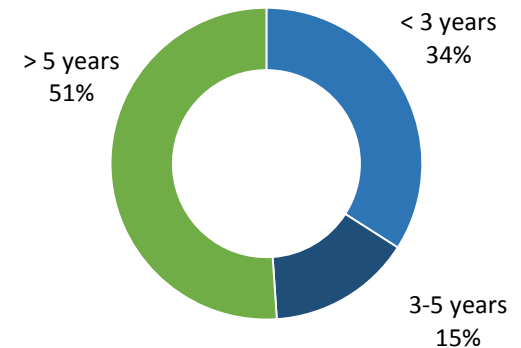
Section four
Growth strategy

Growth from existing centres

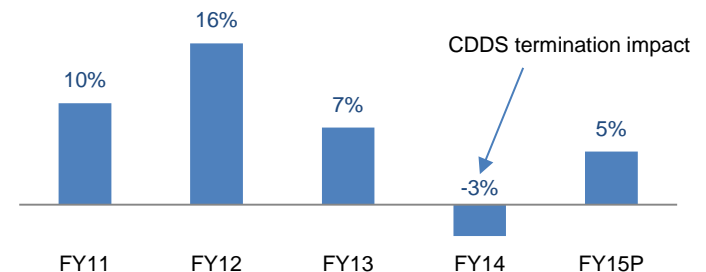
History of strong “same centre” patient fees growth as centres mature...

- ❑ As a result of rapid growth, PSG’s centre network includes a significant proportion of “immature” centres
- ❑ One third of centres are less than 3 years old
- ❑ Average same centre patient fees growth of 7% over the last five years
- ❑ Network includes 222 active chairs, and 59 inactive dental chairs which can be commissioned to meet future demand
- ❑ Strategies to increase same centre patient fees growth include:
 - Marketing initiatives to build brand awareness and new patient attendances
 - Collaboration with private health insurers
 - Increase range of services (treatment mix, higher value services)
 - Improve patient engagement to promote regular dental visits and increase patient loyalty

Centre maturity profile (years opened)

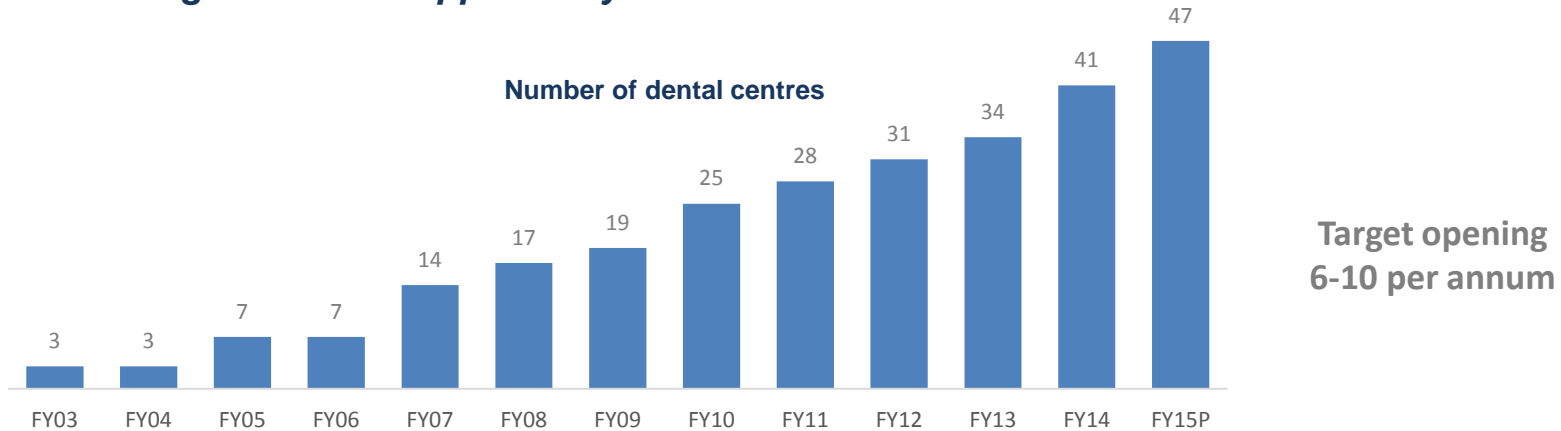


Same centre patient fees growth (%)



Growth from new centre rollout

Significant organic rollout opportunity...



- ❑ Pacific Smiles has grown strongly from 3 centres in 2003 to 47 currently
- ❑ Acquisitions have been highly selective (eg. acquisition of dental business from Medibank/AHM in June 2014)
- ❑ Strategy continues to be focused on organic rollout
- ❑ Six new centres have been opened to date, with a total of eight expected in FY 15
- ❑ Target of six to ten new centre openings each year, and current expectations of eight to ten in FY 16
- ❑ A national network plan has been developed with the assistance of third party demographic experts
- ❑ Over 200 potential future trade areas identified based on demographic and location parameters

New centre openings – FY 2015

On track to open 8 centres in FY 2015

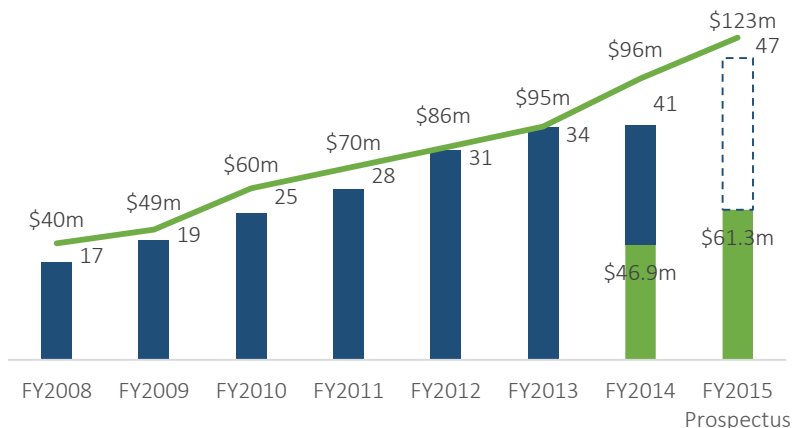
Month	Location	State
July	Jesmond	NSW
December	Blacktown	NSW
December	Toronto	NSW
December	Tuggeranong	ACT
May	Deception Bay	QLD
May	Narellan	NSW
Coming soon...	Brisbane Manuka	QLD ACT



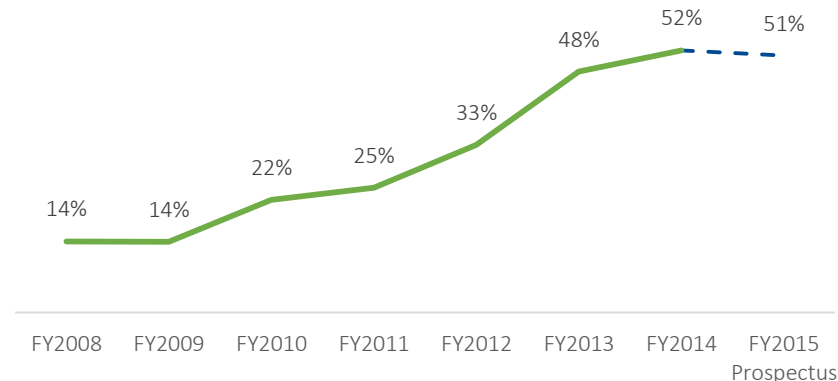
Section five
Financial information

History of strong financial performance

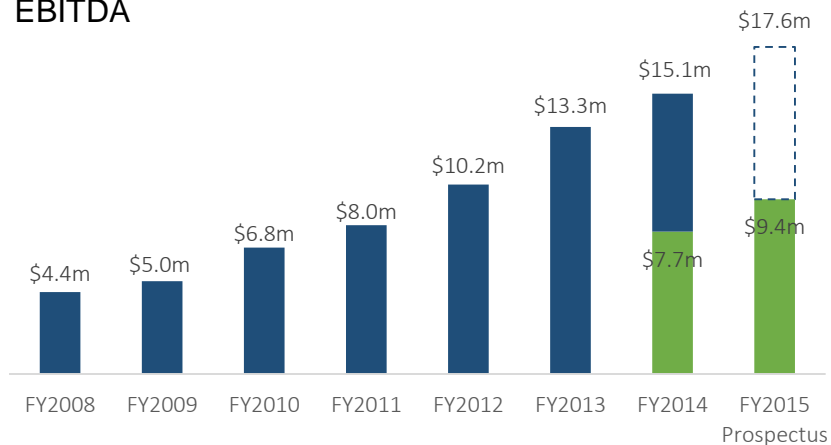
Patient Fees and Number of Centres



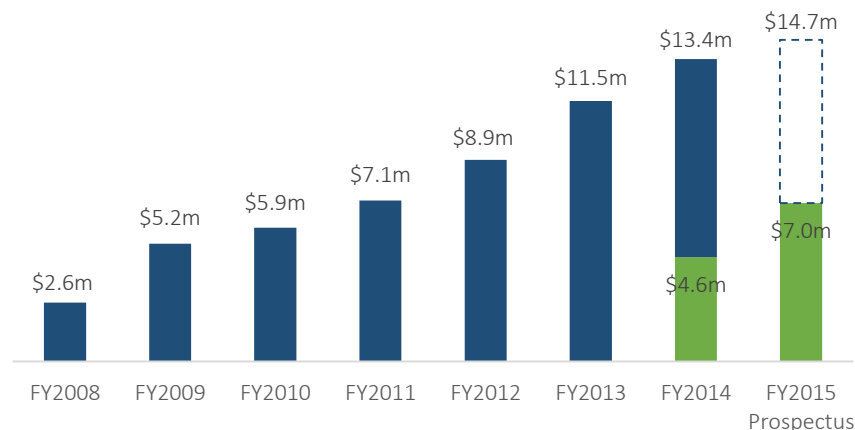
Return on Invested Capital (EBIT)



EBITDA



Operating Cashflow



Note 1. EBITDA and EBIT based on statutory results including impairment of non-current assets and IPO transaction costs expensed.

Note 2. FY2015 forecast represents statutory forecasts included in the Prospectus dated 3 November 2014, excluding IPO transaction costs expensed. The Prospectus included a forecast for FY2015 on a pro forma basis of \$17.4m.

Results highlights – H1 FY 2015

- ▶ **Patient Fees** \$61.3 million, up 30.7% (1H14: \$46.9 million)
- ▶ **Revenue** \$37.6 million, up 30.3% (1H14: \$28.8 million)
- ▶ **Same centre patient fees** growth +6.0%
- ▶ **EBITDA** (pro forma) \$9.2 million, up 24.7% (1H14: \$7.4 million)
- ▶ **NPAT** (pro forma) \$5.0 million, up 18.6% (1H14: \$4.2 million)
- ▶ **Operating cashflow** of \$7.0 million (1H14: \$4.6 million)
- ▶ **Interim dividend** of 1.67 cps (fully franked) declared
- ▶ **Network expansion** with 4 new centres opened
- ▶ **ASX listing** in November 2014



Section six
Outlook

Outlook

- ❑ FY15 outlook compared to Prospectus forecast:
 - Patient fees and statutory revenue approximately in line
 - Pro forma EBITDA and NPAT likely to meet or exceed
- ❑ FY15 total new centres opened is expected to be 8 (compared to Prospectus forecast of 6, updated to 6-8 following interim results)
- ❑ The new centre pipeline remains healthy, and we now expect to open 8-10 new centres in FY16 (compared to our long term target of 6-10 per annum)
- ❑ Same centre patient fees growth has moderated from +6.2% year-to-date to January 2015 to +5.0% year-to-date to April 2015, including the impact of the following:
 - Strong aggregate performances from the newer centres
 - Softer performance in some Sydney metropolitan and Hunter Valley dental centres
 - The closure of several centres in the Hunter Valley for up to 2 days, and lower patient attendance during the April storms and floods
- ❑ Strong balance sheet to fund future new centre rollout, with net cash of approximately \$15 million



Thank you